

VZCZCXYZ0001
OO RUEHWEB

DE RUEHBJ #2648/01 1891042
ZNY SSSSS ZZH
O 071042Z JUL 08
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8454
INFO RUEHHK/AMCONSUL HONG KONG 0358
RUEAIIA/CIA WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC

S E C R E T BEIJING 002648

SIPDIS

DEPT FOR ISN AND EAP

E.O. 12958: DECL: 07/07/2033

TAGS: PARM PREL MTCRE ETTC CH IR SY

SUBJECT: (S) CHINA PROVIDES RESPONSE TO U.S.-RAISED
NONPROLIFERATION CASES

REF: A. BEIJING 02550 - LIMMT
1B. BEIJING 2302 - NAMCHONGANG
1C. 07 BEIJING 1625 AND PREVIOUS - BELLAMAX
1D. 06 BEIJING 1429 AND PREVIOUS - BJ HUAYUN INT'L
1E. BEIJING 2614 - AUSTRALIA GROUP MEETING
1F. 07 BEIJING 5848 AND PREVIOUS - ZIBO CHEMET
1G. 07 BEIJING 5361 AND PREVIOUS - CPEI
1H. 07 BEIJING 4645 AND PREVIOUS - CEIEC
1I. 07 BEIJING 5499 AND PREVIOUS - CTAC
1J. 07 BEIJING 6576 AND PREVIOUS - XINSHIDAI
1K. 07 BEIJING 6199 AND PREVIOUS - CPMIEC
1L. BEIJING 1209 AND PREVIOUS - MOST GROUP CORP.
1M. BEIJING 1354 AND PREVIOUS - DALIAN ZHONGBANG

Classified By: Acting Political Minister Counselor Ben Moeling. Reason
s 1.4 (b), (c) and (d).

11. (S) Summary. MFA Arms Control and Disarmament Department
Missile Division Director Zhang Junan briefed Poloffs on June
27 regarding the PRC's response to twelve
proliferation-related cases raised by the United States.
Zhang provided additional information on four cases and
otherwise largely reiterated details previously reported by
Post. Zhang stated that China "always attaches great
importance" to non-proliferation cooperation with the United
States, but complained that much of the information provided
by the United States is either "inaccurate or insufficient,"
making it difficult for China to conduct investigations.
Moreover, many of the cases raised by the United States
involve items which are not controlled under Chinese laws.
Zhang said U.S. threats of sanctions are "not acceptable" and
would "only impede" cooperation between the United States and
China. End Summary.

12. (S) See Ref A for the Chinese response on LIMMT.

NAMCHONGANG

13. (S) Zhang noted that the United States approached China in
April 2005 regarding suspicions that North Korean firm
Namchongang Trading Corporation (Ref B) was attempting to
import aluminum tubes to North Korea from German company
Optronic via a Chinese intermediary. Zhang said the United
States requested that China investigate Namchongang and "keep

an eye on" North Korean official Yun Ho-chin, the head of
Namchongang. Zhang said investigations revealed that in
October 2002, Namchongang attempted to import aluminum tubes
from Optronic to Dalian, China. However, the relevant
contract was "not valid" at the time and "the goods were held
by the Germans and never entered China." Zhang emphasized
that China would "never allow anyone to conduct proliferation
activities in Chinese territory." He added that Yun is "no
longer in China" and Namchongang is "no longer operating in

China."

BELLAMAX

¶4. (S) Zhang noted that beginning in October 2005, the United States approached China on several occasions regarding the Chinese company Bellamax. Bellamax was suspected of trying to export sensitive materials and equipment -- such as titanium stabilized duplex stainless steel, gyroscopes and ball bearings -- to Iran for use in Iran's ballistic missile program. The United States informed China that in December 2005, a delegation of Iranian missile experts visited China and contacted Bellamax, and that these experts "probably" returned home with materials for the missile program. The United States also provided information that Bellamax had a "relationship" with Hong Kong firm Pyramid, which in turn had ties to North Korea and conducted business activity through the Macau branch of the Bank of China. Zhang informed Poloffs that the PRC "followed the lead" provided by the United States, but after "intense investigation did not find any evidence" that Bellamax's export activities violated Chinese laws. Zhang stated that China "considers the case closed" but is "more than ready" to take relevant action if the United States has "further reliable information." (Note: This information was reported in Ref C in March 2007 and no new information has been provided since then.)

BEIJING HUAYUN INTERNATIONAL TRADING COMPANY

¶5. (S) Zhang stated that beginning in November 2005, the United States informed China of the shipment of 150 tons of sodium cyanide to North Korea by Chinese firm Beijing Huayun International Trading Company. The United States was concerned that the shipment would be used by North Korea to produce chemical weapons. Director Zhang noted that subsequent PRC investigations showed that relevant Chinese authorities "never received any kind of application" from Beijing Huayun to export this substance. The results of this investigation were relayed to the U.S. Embassy in February 2006 (Ref D).

ZIBO CHEMET EQUIPMENT COMPANY LIMITED

¶6. (S) Zhang stated that the United States provided information in July 2006 that Zibo Chemet Equipment Company Limited shipped glass-lined equipment to Iran from the Chinese ports of Tianjin and Qingdao using the "cover name" of "anti-acid distillation units." The Embassy presented additional information in September 2007 that Zibo Chemet again shipped glass-lined equipment and condensers to Iran using a UAE company as an intermediary. Chinese investigations discovered that Zibo Chemet illegally exported two batches of glass-lined equipment and condensers to Iran by using a "fake name" for the controlled substance. Zhang noted that Zibo Chemet did not apply for the appropriate export license for these items, and as a result MOFCOM imposed "administrative punishment" in the form of a monetary fine. (Note: We separately found out at the Australia Group outreach meeting to China on June 25 that the fine imposed on Zibo Chemet was approximately RMB 45,000 or USD 6,596. See Ref E.) Zhang added that the General Administration of Customs was contacted to determine if further "punishment" was warranted. (Note: No new information provided since Ref F report in 2007.)

China Precision Engineering Company (CPEI)

¶7. (S) In 2006, said Zhang, the United States approached China concerning the export activities of China Precision Engineering Company (CPEI). The United States claimed CPEI was attempting to export "sensitive goods including aluminum sheets, tubes and rods" to the Iran-based ECXIR Trading Company in November 2006. In October 2007, the United States

alleged that CPEI was attempting to export Swiss-made 3-Axis motion stimulators to Iranian companies Samen Al-Aemmeh Industrial Group and sister company Saman Industry Group. Zhang stated that PRC investigations revealed CPEI signed a contract to export aluminum products to ECXIR, but that the materials are all "civilian" in nature and "widely used in construction and machinery," and therefore not subject to Chinese export controls. However, in consideration of U.S. concerns, the Chinese Government asked CPEI to terminate implementation of the contract. Concerning 3-Axis motion stimulators, Zhang said Chinese investigators "did not find that CPEI had any kind of contact" with Saman and that there is "no evidence" that they conducted any negotiations to export 3-Axis motion stimulators. Zhang stated that U.S. information on this case was "incorrect." (Note: No new information provided since Ref G telegram in 2007.)

CEIEC

¶ 8. (S) Zhang noted that in July 2007 the United States provided China with information regarding a Syrian attempt to purchase multi-spectrum camouflage netting from China National Electronic Import Export Corporation (CEIEC). The United States maintained that this netting is controlled by the Wassenaar Arrangement, could increase the capabilities of the Syrian military and be used to hide WMD and related equipment (Ref H). The United States "threatened" to impose sanctions on CEIEC, said Zhang. According to PRC investigators, Zhang said, CEIEC received a "request for a quotation" from Syria but did not follow up with the Syrian side. Zhang then emphasized that since the PRC is not a member of Wassenaar and thus is "not under any obligation or position to accept U.S. threats of sanctions," China "will not accept this threat." (Note: This is the first time the PRC reported details of its investigation of CEIEC.)

China Taly Aviation Corporation (CTAC)

¶ 9. (S) Zhang said that in August 2007, the United States approached China regarding the May 2007 negotiations by China Taly Aviation Corporation (CTAC) to supply the Army Supply Bureau (ASB) of Syria with computer numerically controlled lathes, machinery centers, plasma cutting machines and laser

punching devices (Ref I). The United States expressed concern because these items are covered under the Nuclear Supplier's Group and Wassenaar Arrangement and could be used in making missile parts. Zhang stated that investigations confirmed Syria approached CTAC to purchase this machinery. However, while CTAC received the request, Zhang said CTAC never replied to Syria's machinery request. Zhang added that these items are "not subject to export control by the PRC." (Note: This is the first time that China reported results of its investigation of CTAC.)

Xinshidai

¶ 10. (S) The United States contacted China in August 2007 regarding Chinese company Xinshidai's sale of 250,000 auto injectors and 20 chemical agent detectors to the ASB of Syria (Ref J). Zhang reported that China's investigation "did not find any kind of evidence or clues" and concluded that the information provided by the United States was incorrect. (Note: This is the first time that China reported details of its investigation of Xinshidai.)

CPMIEC

¶ 11. (S) Zhang stated that South Korea informed China in June 2007 that it would temporarily hold a shipment of specialty steel (Type 30CRMOV9) scheduled to be shipped to Syria in its port in Busan. The Israeli Embassy later contacted China and explained that the shipment could be used in the production of missiles and rockets by Syria to be transferred to

Hezbollah. The Israeli Embassy requested that the shipment be turned back. Zhang said the subsequent Chinese investigation found that the shipment by China Precision Machinery Import Export Corporation (CPMIEC) was "for use in oxygen tanks for high-pressure tanks." Zhang said that the ASB of Syria provided "valid end-user certificates" and "agreed not to transfer the material to a third party without PRC consent." Zhang noted this information was provided to Israel and South Korea and the shipment was eventually released by South Korea for shipment to Syria. (Note: Post raised this case using Ref K points in September 2007. This is the first time China has passed on information regarding the results of its investigation.)

MOST GROUP CORPORATION LIMITED

¶12. (S) In March 2008, Zhang stated that the Embassy provided China with information that Hong Kong's Most Group Corporation Limited planned to export aluminum plates (Type 707-5/T651) to the Iranian company Aluminat. Specifically, Most Group purchased these materials from the Chinese company Northeast Light Alloy Corporation Limited to ship to Aluminat for use in Iran's cruise missile program. The United States believed that Most Group was aware that the end-use was for military purposes. The U.S. Consulate in Hong Kong informed the Hong Kong Trade and Industry Development Bureau about the case and Hong Kong authorities agreed to conduct an investigation. Zhang said that on March 31, China requested additional information from the United States regarding its investigation into the Hong Kong firm but that it has not yet received any feedback (Ref L).

DALIAN ZHONGBANG CHEMICAL INDUSTRIES

¶13. (S) Zhang said the Embassy informed China on January 18, 2008 that Chinese company Dalian Zhongbang Chemical Industries was planning to ship aluminum powder, potassium perchlorate, toluene diisocyanate and anti-oxidant A02246 from the port of Dalian for loading onto M/V Iran Teyfouri, which is operated by IRISC, an Iranian shipping company. U.S. information indicated that aluminum powder and potassium perchlorate was sent to Mehr Engineering and Industry Group, while toluene diisocyanate and anti-oxidant A02246 was sent to Omid Research Industry Group. According to Chinese investigations, Zhang confirmed that Dalian Zhongbang Chemical Industries shipped these products, but the buyers, Kingsview Limited and ISS Mart Product PTE Limited, were "Singaporean, not Iranian, companies." Further, the items were shipped freight on board (FOB) and unloaded in Singapore. Zhang said documentation regarding the transactions was in good order when reviewed by China and that the items were loaded onto the Iranian ship at the request of the Singaporean companies.

¶14. (S) Zhang noted that despite U.S. concern that Chinese authorities may have been "misled" about the vessel's destination, the Ministry of Transportation certified that the vessel would stop and unload in Singapore (Ref M). Zhang said that China previously briefed the Embassy that the items shipped were not controlled under Chinese law and that Dalian Zhongbang is "in full compliance with Chinese laws and normal trade activities." According to Zhang, China "attaches great importance to U.S. information" and if the United States provides additional evidence, China will conduct further investigations. Zhang also suggested that the United States approach the Singapore Government regarding this matter. (Note: No new information was provided regarding Dalian Zhongbang.)

PRC REQUESTS ACCURATE AND RELIABLE INFORMATION

¶15. (S) Director Zhang told Poloffs that China "always attaches great importance and holds a careful cooperative attitude" when conducting investigations into possible proliferation cases. He also noted that in "taking into

account U.S. concerns," the PRC has taken some measures that "go beyond" PRC laws and obligations. For example, China has requested "many Chinese companies to cancel contracts with companies that are in no way in violation of relevant laws." This "clearly shows sincerity and cooperation from the PRC," said Zhang.

¶16. (S) However, said Zhang, there are "two main problems" with U.S. requests. First, much of the information provided by the United States is "incorrect or insufficient" and sometimes the only information provided is the name or address of a company. Zhang asserted that the United States is often "reluctant" to provide additional information "in order to protect the source." This places China in a "difficult situation" as relevant agencies are "frustrated" over the "manpower and time wasted." Second, Zhang said many of the raised cases are "neither in violation of UN accords nor controlled by Chinese laws and regulations." He charged that this is "an enlargement" of expectations that the PRC "cannot accept."

¶17. (S) Zhang said that if the United States provides "accurate and reliable information in the future and raises cases with a constructive attitude," it would "improve cooperation and prompt the PRC to start actions against possible violators." Zhang noted the lifting of sanctions against Great Wall and said he believes it is a "step in the right direction." He asserted that the "threats of sanctions are not acceptable" and that they would only "impede" cooperation between the United States and China.

RANDT